

THE INDIVIDUAL TAX
SIMPLIFICATION ACT OF 2003

HON. RICHARD E. NEAL

OF MASSACHUSETTS

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 1, 2003

Mr. NEAL. Mr. Speaker, today I am introducing "The Individual Tax Simplification Act of 2003," and I invite all my colleagues to join me in sponsoring this legislation, which is identical to legislation I filed last Congress.

The tax code seems to get more and more complex each year, despite calls for simplification. Recently, the Joint Tax Committee determined that taxpayers are increasingly relying on paid return preparers, up 27 percent over a decade. Over the same period, the reliance on computer software has jumped from 16 percent of returns filed to 46 percent. Tax code complexity leads not only to taxpayer frustration and confusion, but also increased costs. Tax code complexity also leads to difficulties for the IRS in administering our tax laws fairly and consistently.

The simplification bill that I have re-introduced will eliminate hundreds of lines from tax forms, schedules and worksheets. I believe that it is possible and preferable to accomplish simplification in a revenue neutral manner, and without moving money between economic income groups. While some may argue that there is no constituency for simplification, I would say that is certainly changing. One survey found that two-thirds of taxpayers said the federal tax system is too complicated, up from barely 50 percent five years ago.

The Individual Tax Simplification Act has three parts. The first is based on legislation I introduced in the last three Congresses regarding nonrefundable personal credits. The second part simplifies the taxation of capital gains. The third part repeals two hidden marginal tax rates on high-income individuals, and repeals the individual minimum tax.

Title I—Simplification Relating to Nonrefundable Personal Credits

In recent years, much tax relief has been given to taxpayers in the form of nonrefundable credits, like the education credits. These credits are not usable against the alternative minimum tax. That means that more and more individuals will lose all or part of these credits, and will have to fill out the extremely complicated Alternative Minimum Tax (AMT) form. Congress has recognized this problem by enacting a short-term waiver of this exclusion. Congress has also permanently taken the child credit and the adoption credit out of the AMT. Now is the time to finish the job.

The other problem with nonrefundable credits is that the phase-out provisions vary from credit to credit, causing unnecessary complexity. In addition, the same additional dollar of income can result in a reduction in more than one nonrefundable credit. It is fundamentally wrong to promise the American public tax relief, then take all or part of it away in a backhanded manner. This fundamentally flawed policy, enacted in 1997, will get worse each and every year as more American families find themselves to be AMT taxpayers simply because of the impact of inflation, or because of their desire to take advantage of the tax relief we have promised them. Not only that, this situation has gotten much worse since the passage of the 2001 tax cuts.

This bill addresses both concerns. First, it permanently waives the minimum tax limitations on all nonrefundable credits. Second, the bill creates a single phase-out range for the adoption credit, the child credit, and the education credits, replacing the current three phase-out ranges.

Title II—Simplification of Capital Gains Tax

The second title of this bill substantially simplifies taxation of capital gains. Under current law, there are five different tax rates for long-term capital gains, and a complicated, 40-line tax form that must be endured. Moreover, this part of the tax code is already scheduled to get worse because additional rates will take affect under current law in 2006. The solution is clear. Replace this jumble of rates and forms with a simple 38 percent exclusion. Not only will this result in tremendous simplification, but more than 97 percent of individuals would be eligible for modest capital gains tax reductions.

Title III—Repeal of Certain Hidden Marginal Rate Increases, and of the Individual Minimum Tax

The third title of the bill repeals the hidden marginal rate increases in current law, and repeals the individual minimum tax. For many taxpayers, discovery of the Personal Exemptions Phaseout (PEP) and the "Pease," which limits itemized deductions, can be both confusing and disappointing.

Under current law, itemized deductions are gradually reduced by 3 percent of adjusted gross income (AGI) above approximately \$139,000, or by 80 percent of the otherwise allowable itemized deductions for individuals exceeding \$139,000 AGI, whichever is lower. This is known as the Pease provision. In addition, personal exemptions are gradually phased out for incomes between approximately \$139,000 and \$262,000. This is known as the PEP. If we did not hide the effect of these provisions of current law, more people would know that these provisions result in hidden marginal rate increases. Current law has a hidden marginal rate increase, which gets worse as families grow larger. The 2001 tax cuts as enacted provide for gradual phase-out of both of these limitations in 2006, but then the repeal is subject to a sunset. This bill would immediately eliminate both.

The second part of this title is a complete repeal of the individual AMT. The original intent of the AMT was to make sure that wealthy individuals did not overuse certain tax benefits and unfairly reduce their tax burden. Unfortunately, it no longer accomplishes that goal. Since the AMT is not adjusted for inflation, more and more middle income taxpayers are falling into the AMT. In fact, a recent Tax Policy Center report showed that by the end of the decade, the AMT will hit 97 percent of all families with two children earning between \$75,000 and \$100,000. This is not what was intended, especially when you consider that what pushes taxpayers into the AMT now, more often than not, are state and local income and property taxes, personal exemptions, and the nonrefundable credits. The National Taxpayer Advocate has called for the repeal of the AMT, finding that the AMT calculation adds another 12 hours of preparation time for a taxpayer. Certainly, this is not what Congress was trying to accomplish when the AMT was passed.

My suggestion is to repeal it for individuals, and substitute a simple tax on adjusted gross

income. The current hidden tax is dropped, and is paid for with an explicit tax on the same individuals. They get simplification, and we convert a deceptive practice into an open one.

This bill gives the Secretary of the Treasury the ability to set the rate so that this bill would be revenue neutral over ten years. The threshold amount, chosen to mimic the reality of current law, would be \$120,000, and \$150,000 in the cases of a joint return.

Conclusion

This bill provides fairly dramatic simplification of the individual tax system. It eliminates up to 200 lines on tax forms, schedules and worksheets. It is basically revenue neutral, so it can be accomplished during a year when there is no budget surplus to fund tax cuts. It does not attempt to shift money between income groups. The general philosophy behind the bill is that those who benefit from tax simplification of the current code should offset any revenue loss involved.

With only one-third of individuals actually willing to fill out their own forms, it is time for Congress to act. Unfortunately, the reality is that no one wants to pay for simplification no matter how much they support the goal. Here is my suggestion. I am introducing this legislation to continue the discussion I began during the 106th Congress. I am pleased that this Administration has talked about the need for tax simplification. I am also pleased that since I began this effort, the Joint Committee on Taxation and other Members of Congress have joined the debate. I look forward to working with all interested parties in this simplification effort.

IMPROVING EDUCATION RESULTS
FOR CHILDREN WITH DISABILITIES
ACT OF 2003

SPEECH OF

HON. JAMES R. LANGEVIN

OF RHODE ISLAND

IN THE HOUSE OF REPRESENTATIVES

Wednesday, April 30, 2003

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 1350) to reauthorize the Individuals with Disabilities Education Act, and for other purposes:

Mr. LANGEVIN. Mr. Chairman, I rise today in opposition to H.R. 1350, reauthorizing legislation for the Individuals with Disabilities Education Act. The reauthorization of IDEA is critical to the educational outcomes of millions of students with disabilities for years to come. I am sorely disappointed that H.R. 1350 represents a lack of commitment to fulfilling the promise of IDEA by failing to fund the law, and even proposes changes undermining the very philosophy of IDEA.

IDEA was enacted with the clear intention of eliminating discrimination against students with disabilities by promising a free and appropriate education to children with disabilities. Even with the increases in IDEA funding over the last several years, the federal government has never lived up to its share of this promise, which was intended to be 40 percent of the cost of special education services. These recent increases touted on the floor of the House have only added up to 18 percent—hardly significant in a time of state budget crises. As schools are forced to dip into their